

Message

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Celsius Board Follow Up

Key Observations / Takeaways

1. Celsius does not have a sustainable business model today. Celsius has wiped out all of its last equity raise two times over in a few months and piled up ~\$975M of losses over the past 5 quarters. Celsius operational losses continue to accrue at an unsustainable rate. Priority for '22 must be to build a sustainable economic model in order to be a going concern.
2. Celsius needs to restore confidence with investors and the market. The wide miss to forecast in revenues and expenses in just a year will make it very hard to finance Celsius anytime soon as situation which is made even harder by the current market environment.
3. Off to a great start with new hires in Rod and Aslihan. Sales, Compliance and IT are next. Product and HR are areas to watch and seem to be overwhelmed by the rapid hiring and disorganization. The organization is, at times, in a tense chaos of conflicting priorities.
4. CWS is similar to building a leading prime brokerage and custody platform for crypto. It will be a long build to offer third party applications and Celsius should be patient, find the right model, build narrowly to what is necessary and build nothing before product market fit is established. This is not time to guess what clients want or build ahead of actual demand. Focus on HNW, Corporate, and Institutional Clients, where bulk of the business is today.
5. Forecasting 200 bps NIM is optimistic and likely will create too much risk. Celsius cannot do directional trades, unsecured lending or buy deposits. These activities make Celsius worth only its net asset value minus a sharp discount for risk. Managing rewards, cost of funds, and risk adjusted returns are a critical path. OpEx has outgrown 2x the scale of the business. Outlook requires right-sizing cost base is roughly half of current run rate.
6. Mining has consistently under-delivered against all targets. Upgrading mining execution skills is critical path. Celsius has to keep mining for now to have a source of profitability and asset value that can be funded by 3rd parties. Without mining, Celsius likely has negative asset value today.
7. Infrastructure business is long-term right strategy; risk-off services / fees will be valued by market at premium to trading.
8. Risk needs to be built into DNA of everything you do. AM has to limit direct reports to 4 or 5 and have risk management independently managed – as it is in any scale financial organization. Risk limits should be set by management and agreed the Board. AM should elevate a President from the new hires. This will also blunt the regulatory impact and calm the organization with balance.



2022 Goals

- 1 **Execute NIM recovery**
200 bps NIM by year end; 110 bps of risk-adjusted revenue;
Delta neutral, no directional trading or unsecured lending or uncollateralized loans
- 2 **Manage OpEx (ex-mining) to \$12M/month**
Reprioritize, back-to-basics, shrink to grow
- 3 **Execute on Mining Operational Plan**
130k Rigs deployed by year end, supplement management;
or merge with a smaller player who had quality management
- 4 **Rebuild Capital**
Mining IPO / strategic combination + settle write downs from 2021 Credit-Market-Operational losses
- 5 **Get Audit/Regulatory Ready by YE '23**
Systems, Controls, AML, SOC, MTLs etc
- 6 **Stay within lines on Communications**
Learn what you can and can't say and control public narrative
- 7 **Stabilize Organization**
Too much change; need additional experienced commercial, risk managers in leadership roles




Target Economic Model (vs. Current State) – Core Business

	Current		Target	
	\$	bps	\$	bps
AUM (\$M)	\$ 20,000		\$ 20,000	
NIM	400	200	400	200
Fees	-	0	100	50
Revenue	400	200	500	250
Credit Costs	180	90	180	90
Risk Adj Rev	220	110	320	160
Expenses ⁽¹⁾	350	175	150	75
EBIT	(130)	(65)	170	85
Economic Cap	1,500	750	1,500	750
ROEC - pretax	(9%)		11%	

Commentary

- OpEx has outgrown scale of business
- At current scale (\$20B AUM) + 50 bps fee, business can support \$12.5M/month (\$150M/year) in OpEx
- 11% Pretax ROEC is below target; ROEC will scale as AUM scales
- Economic Capital calculation / methodology still being refined

 (1) Excludes non-cash compensation (CEL, RSU, Options)

OpEx (ex-Mining) Analysis

Original Projections (Aug '21) vs. Current Plan

	Original Forecast		Actual / Plan		Delta (Plan - Forecast)	
	2021	2022	2021A	2022P	2021	2022
AUM (\$B)	\$20.7	\$53.0	\$23.0	\$31.6	\$2.3	(\$21.4)
Net Revenue	\$448.5	\$1,918.1	\$42.5	\$660.7	(\$406.0)	(\$1,257.4)
Compensation	37.1	81.5	141.0	213.6	103.9	132.1
Transformation	-	-	-	20.0	-	20.0
CapEx (Software)	-	-	-	(28.3)	-	(28.3)
Other ⁽¹⁾	16.4	55.6	85.4	129.0	69.0	73.4
Total OpEx	\$53.5	\$137.2	\$226.4	\$334.3	\$172.9	\$197.1

1) Assumed to be marketing / CAC spend in the Original Forecast

Commentary

- Actual performance and revenue and cost profile look nothing like what investors were sold only a few months ago.
- Even as revenues disappeared and losses mounted the cost base went up 4x and created an unsustainable unfinanceable business.
- OpEx numbers likely not perfectly apples to apples (forecast came from Celsius during due diligence) but are directionally correct
- OpEx spend for 2021 came in ~\$173M higher than anticipated from August 2021 forecast (over 4.0x forecasted amount)
- Lower than anticipated Net Revenue further accentuates need to right-size cost base



Next Steps

- Develop plan to reduce costs to \$12M/month
- Set up product review for both retail and institutional. For each product address market opportunity and depth of market, size profit pools, assess competitive set, address buy vs. build, pricing, speed to market
- Set up Mining operational review
- Deliver Total Rewards (comp, CEL, Options) plan prior to next Board Meeting
- Set up Portfolio / Risk Review (2x/month)
- Set up Board Meeting in July in London

